

Message Text

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AMEMBASSY OTTAWA
AMEMBASSY COPENHAGEN
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SUBJECT: REPORT OF IDB WORKING GROUP ON BANK FUNCTION AND
POLICIES

BRUSSELS INFO FOR USEEC, PARIS INFO FOR USOECD, MANILA FOR
USADB, ABIDJAN FOR USAFDF/HENNESEY

1. THIS CABLE TRANSMITS THE TEXT OF THE REPORT OF THE
JUNE 29-30 MEETING OF THE IDB'S WORKING GROUP ON BANK
FUNCTIONS AND POLICIES AS APPROVED BY THE IDB'S COMMITTEE
OF THE BOARD OF GOVERNORS. SEPTELS PROVIDE THE TEXT OF

THE MAJOR U.S. STATEMENT AND AN ANALYSIS OF THE MEETING.

BEGIN TEXT:

THE WORKING GROUP ON BANK FUNCTIONS AND POLICIES APPOINTED PURSUANT TO RESOLUTION AG-9/78 HELD ITS FIRST MEETING IN WASHINGTON ON JUNE 29-30, 1978, TO EXAMINE THE TOPICS INCLUDED IN THE AGENDA (ANNEX I). THE GOVERNOR FOR MEXICO WAS ELECTED TO SERVE AS CHAIRMAN AND THE GOVERNORS FOR HONDURAS AND THE UNITED KINGDOM AS VICE CHAIRMEN. THE LIST OF THOSE ATTENDING THE MEETING IS ATTACHED (ANNEX II).

MANDATE OF WORKING GROUP

IN ORDER TO ORGANIZE THE ANALYSIS AND DISCUSSION OF THE FOUR GENERAL TOPICS TO BE EVALUATED BY THE GROUP IN FULFILLMENT OF RESOLUTION AG-9/78, A LIST OF THE VARIOUS QUESTIONS MOST FREQUENTLY ARISING IN DISCUSSIONS OF GENERAL BANK POLICY WAS SUBMITTED. THE LIST HAD BEEN PREPARED BY THE SECRETARIAT IN ACCORDANCE WITH OBSERVATIONS MADE BY SOME OF THE GOVERNORS (ANNEX III). IT WAS REPORTED TO BE A DESCRIPTIVE LISTING OF THOSE ASPECTS PRESENTED TO DATE AND WAS UNCLASSIFIED

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OPEN FOR CONSIDERATION BY THE MEMBERS OF THE GROUP.

THE GROUP FELT THAT THE LIST REFLECTED THE CONCERNS OF THE COUNTRIES WITH REGARD TO THE SCOPE OF THE STUDY. HOWEVER, IT WAS CONSIDERED APPROPRIATE TO ESTABLISH A SUITABLE PERIOD FOR GROUP MEMBERS TO PRESENT THEIR OBSERVATIONS ON ITS CONTENTS AND SUCH ADDITIONAL TOPICS AS MIGHT FORM PART OF THE STUDY. TO THAT END A DEADLINE OF AUGUST 31, 1978 WAS SET, WITH THE UNDERSTANDING THAT THE SECRETARIAT WOULD DISTRIBUTE COMMUNICATIONS FROM THE GOVERNORS AS THEY WERE RECEIVED IN ORDER THAT THE SUGGESTIONS SUBMITTED MIGHT BE MADE KNOWN IMMEDIATELY TO ALL MEMBERS OF THE GROUP.

UPON EXPIRATION OF THE PERIOD SET AND IN ACCORDANCE WITH THE OBSERVATIONS MADE BY GROUP MEMBERS, THE CHAIRMAN WOULD ADOPT A LIST OF TOPICS TO BE ANALYZED AND TAKE STEPS TO PROVIDE FOR PREPARATION OF THE BASIC DOCUMENTATION ON THOSE TOPICS, REPORTING ON HIS ACTIONS TO THE WORKING GROUP AND CONSULTING WITH IT ON THE PLACE AND DATE OF ITS NEXT MEETING. AS TO THE BASIC DOCUMENTATION TO BE PREPARED, IT WAS RECALLED THAT PURSUANT TO RESOLUTION AG-9/78 THE GROUP SHALL HAVE THE ASSISTANCE OF THE BOARD OF EXECUTIVE DIRECTORS AND THE MANAGEMENT OF THE BANK.

TOPICS PROPOSED AT MADRID MEETING

THE WORKING GROUP CONSIDERED THE GENERAL POLICY ISSUES RAISED DURING THE SECOND MEETING OF THE WORKING GROUP ON

THE FIFTH REPLENISHMENT OF RESOURCES, HELD IN MADRID ON MAY 30 AND 31, 1978. TO THAT END THE MANAGEMENT SUBMITTED DOCUMENTS FP-2 THROUGH FP-9 CONTAINING INFORMATION ON THE SEVERAL POLICY ASPECTS CORRESPONDING TO THAT ITEM ON THE AGENDA.

AS A RESULT OF ITS DISCUSSIONS THE GROUP REACHED THE FOLLOWING CONCLUSIONS:
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1. THE WORKING GROUP CONFIRMED THAT THE BANK LENDING PROGRAM SHOULD CONTRIBUTE TO THE ACCELERATION OF THE PROCESS OF ECONOMIC AND SOCIAL DEVELOPMENT OF THE REGIONAL DEVELOPING MEMBER COUNTRIES, INDIVIDUALLY AND COLLECTIVELY, AND, IN SO DOING, SHOULD TAKE INTO ACCOUNT THE DEVELOPMENT PRIORTIES FORMULATED BY THESE COUNTRIES. IN THIS CONNECTION THE PROPOSAL ON PRIORITY INVESTMENT AREAS FOR THE 1979-82 PROGRAM WAS CONSIDERED GENERALLY ACCEPTABLE.

MOREOVER, IT WAS ALSO AGREED THAT THE RESOURCE ALLOCATIONS FOR THE FOUR PRIORITY AREAS SHOULD BEVIEWED AS GLOBAL TARGETS FOR BANK LENDING AND AS INDICATIONS OF THE RANGES WHICH MIGHT BE OPERATIONALLY PRACTICABLE.

2. IT WAS AGREED THAT THE BANK SHOULD INTENSIFY ITS EFFORTS TO CHANNEL RESOURCES TO PROJECTS WHICH PROVIDE BENEFITS TO THE LOW-INCOME GROUPS, ESPECIALLY IN THE MATTER OF IMPROVING THE PRODUCTIVITY AND INCOME OF THESE GROUPS. IT WAS FURTHER AGREED THAT THE BANK SHOULD DEFINE THESE TARGET GROUPS MORE PRECISELY AND AIM AT DEVOTING ONE-HALF OF ITS LENDING FROM BNAK RESOURCES DURING THE PERIOD OF THE NEXT REPLENISHMENT TO SUCH PROJECTS.

3. IN VIEW OF THE INTEREST OF THE MEMBER COUNTRIES IN THE ABOVE MATTERS, IT WAS RECOMMENDED THAT THE BANK SUBMIT AN ANNUAL REPORT CONTAINING QUANTITATIVE AND QUALITATIVE ANALYSES OF PROGRAM APPROVALS IN TERMS OF SECTORS, AND OF THE SOCIOECONOMIC IMPACT OF BANK ACTION ON THE LOW-INCOME GROUPS IN LATIN AMERICA.

4. NO CONSENSUS WAS REACHED ON THE SUGGESTION MADE BY SOME GOVERNORS, TO WHICH OTHER GOVERNORS OBJECTED, THAT AS
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THE BORROWING COUNTRIES ADVANCE IN THE LEVEL OF ECONOMIC AND SOCIAL DEVELOPMENT, THEY SHOULD, AS A NUMBER OF THEM HAVE IN THE PAST, APPROPRIATELY ADJUST THE CHARACTER AND VOLUME OF THEIR ACCESS TO THE SEVERAL SOURCES OF BANK FINANCING.

IN THE CASE OF FSO FINANCING, IT WAS AGREED THAT, BECAUSE OF THE SCARCE RESOURCES AVAILABLE, THE BANK SHALL CONCENTRATE CONCESSIONARY FINANCING EVEN MORE SPECIFICALLY ON THE LESS-DEVELOPED COUNTRIES OF THE REGION, AND TO THAT END A REVIEW OF THE EXISTING CATEGORIZATION OF COUNTRIES FOR ACCESS PURPOSES SHOULD BE UNDERTAKEN TO DETERMINE WHETHER A RECLASSIFICATION IS NECESSARY. FOR THIS PURPOSE EITHER THE INDICATORS OF THE BANK, THE PER CAPITA INCOME CRITERIA, THE SIZE OF THE MARKET OR OTHER APPROPRIATE INDICATORS WILL BE UTILIZED AFTER REVIEWING THEIR EFFECTIVENESS AND THEIR IMPLICATIONS FOR THE LENDING PROGRAM OF THE BANK. THERE WAS GENERAL AGREEMENT THAT OBJECTIVE COUNTRY CRITERIA, RATHER THAN PROJECT CRITERIA, SHOULD BE THE FIRST DETERMINANT FOR ELIGIBILITY TO USE FSO RESOURCES; RECOGNIZING THE SCARCITY OF THESE RESOURCES, THE BANK WILL ALLOCATE THEM WITH SPECIAL CARE, TAKING INTO ACCOUNT THE SOCIAL EFFECTIVENESS OF PROJECTS, PARTICULARLY IN THE CASE OF MIDDLE-INCOME COUNTRIES.

THE GROUP TOOK NOTE THAT ALL OF THE LATIN AMERICAN COUNTRIES HAVE ACCESS TO OC/IC FINANCING. WITH REGARD TO SUCH FINANCING, SOME DELEGATIONS PROPOSED THAT THE MOST DEVELOPED COUNTRIES OF THE REGION, AS A GROUP, AS TODAY CONCEIVED, SHOULD REMAIN AT THEIR PRESENT LEVEL. OTHER DELEGATIONS DISAGREED WITH THIS POINT OF VIEW AND PROPOSED THAT THE PROPORTIONATE SHARE OF THIS GROUP BE MAINTAINED EITHER AS A TREND OR AS A FIXED PERCENTAGE. NO AGREEMENT WAS REACHED.

THERE WAS GENERAL AGREEMENT REGARDING THE ROLE OF
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COMPLEMENTARY FINANCING IN THE SENSE THAT IT MAY CONSTITUTE AN ADDITIONAL SOURCE OF FUNDS BUT THAT IN NO CASE SHOULD IT BE TAKEN AS A SUBSTITUTE FOR BANK LENDING WITH ITS OWN RESOURCES.

THE SUBJECT OF ACCESS TO EXPORT CREDIT FINANCING WAS ALSO DISCUSSED. SOME GOVERNORS PROPOSED THE EXPANSION OF THIS PROGRAM, WHILE OTHERS SUGGESTED THAT THE MOST ADVANCED COUNTRIES SHOULD RELINQUISH ACCESS TO IT. NO CONSENSUS WAS REACHED IN THESE AREAS.

5. SOME GOVERNORS EXPRESSED THE DESIRABILITY OF HAVING THE DEVELOPING COUNTRIES INCREASE THE PERCENTAGE OF THEIR CONTRIBUTIONS PAID IN FREELY CONVERTIBLE CURRENCIES. OTHER GOVERNORS DISAGREED WITH THIS VIEWPOINT. ANOTHER DELEGATION EXPRESSED THE OPINION THAT THE DECISION ON THIS MATTER SHOULD BE MADE WITHIN THE CONTEXT OF THE GENERAL NEGOTIATIONS ON THE FIFTH REPLENISHMENT. NO AGREEMENT WAS REACHED.

6. SOME GOVERNORS PRESENTED PROPOSALS TO THE EFFECT THAT BANK HOLDINGS IN NONCONVERTIBLE CURRENCIES BE ALLOCATED FIRST FOR LOANS TO THE ISSUING COUNTRIES AND THEN TO THE ACQUISITION OF GOODS AND SERVICES IN THOSE COUNTRIES FOR PROJECTS BENEFITING OTHER COUNTRIES AND THAT THE UNUTILIZED BALANCES BY CONVERTED GRADUALLY INTO OTHER CURRENCIES. OTHER GOVERNORS OPPOSED THE LAST PROPOSAL AS A MATTER OF PRINCIPLE. BECAUSE OF THE RESULTING IMPLICATIONS FOR THE DEVELOPING COUNTRIES, THE MATTER WILL HAVE TO BE STUDIED IN GREATER DEPTH.

7. SOME GOVERNORS PRESENTED PROPOSALS AIMED AT REDUCING THE FOREIGN EXCHANGE FINANCING GRANTED TO THE MORE DEVELOPED
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COUNTRIES OF THE REGION TO COVER INDIRECT FOREIGN EXCHANGE COSTS AND LOCAL COSTS. OTHER GOVERNORS EXPRESSED THE VIEW THAT THIS WAS INCONSISTENT WITH THE AIM OF REALLOCATING RESOURCES TO THE LOW-INCOME GROUPS THROUGH PROJECTS WHICH USUALLY HAVE A LOW IMPORT CONTENT AND WITH THE PROCUREMENT POLICY OF THE BANK. NO CONSENSUS WAS REACHED ON THIS POINT.

8. IN ORDER TO ATTAIN A BETTER BALANCE BETWEEN BENEFITS AND COSTS AMONG THE MEMBER COUNTRIES, THE GROUP SUGGESTED THAT A STUDY BE MADE OF MEANS TO PROVIDE THAT THE BANK'S LIQUID ASSETS MAY BE INVESTED IN THE DEVELOPING COUNTRIES AS WELL AS THE INDUSTRIALIZED COUNTRIES.

END TEXT.

2. FYI: THE ANNEXES MENTIONED IN TEXT ARE NOT BEING TRANSMITTED. CHRISTOPHER

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